INTERCO

1991 ANNUAL REPORT

INTERCO Today is a major manufacturer of furniture and a manufacturer and retailer of footwear through two operating groups.

Furniture and Home Furnishings Group is a major manufacturer and distributor of quality furniture and home furnishings principally in the United States. There are 39 factories and seven major distribution centers and consolidation warehouses located primarily in the Southeastern part of this country.

Footwear Manufacturing and Retailing Group styles, manufactures and distributes primarily men's footwear and a broad range of athletic footwear, principally in the United States, Australia, Canada, Europe and Mexico. There are eight factories and five major distribution centers in operation. The group also operates 506 retail shoe stores and leased shoe departments in 40 states, as well as in Australia, Canada and Mexico.

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To Our Shareholders:

At this time last year I advised you that the company had reached an agreement in principal on basic terms for restructuring the bank debt and had announced a restructuring plan for the subordinated debt and preferred stock. This program was initiated to deleverage the company's balance sheet and reduce annual interest requirements so as to provide INTERCO shareholders with an opportunity to benefit from the future growth of the company's basic businesses. Unfortunately, as the year progressed the general economy deteriorated. The economic downturn not only adversely impacted our operating performance, but also complicated and delayed our restructuring negotiations. In order to protect our fine operating companies during this difficult period, in January 1991, the company filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. This action was taken to give the company the opportunity to complete negotiations on a restructuring plan and allow our operating companies to continue to operate on a "business as usual" basis while the terms of a plan are finalized under supervision of the Bankruptcy Court.

This is a very unusual Chapter 11 filing in that companies with successful operating units, such as INTERCO's, are not generally in bankruptcy. Most companies seek court protection as a result of declining sales and earnings and negative operating cash flow. All of INTERCO's operating companies, Broyhill, Lane, Converse and Florsheim, are positive cash generators and are industry leaders with strong brand names and significant growth potential. Our objective, therefore, is to develop a reorganization plan in order to emerge from Chapter 11 as soon as possible.

Thus far the Chapter 11 has proceeded relatively smoothly. On March 21, 1991, the Bankruptcy Court approved a $150 million debtor-in-possession financing facility that, along with our increasingly strong cash position, will meet all our financing needs for the foreseeable future. The company's cash position should continue to grow and be in excess of $200 million by the end of fiscal 1992. Creditors' committees representing our trade suppliers and subordinated debenture holders have been appointed and initial meetings with them have been completed. Active dialogue with representatives of the pre-petition bank syndicate and medium term noteholders has continued. At the request of the company, an examiner was appointed to review the company's Fiscal 1989 Recapitalization program. The examiner's report is scheduled to be completed in July 1991 and should be helpful in obtaining prompt confirmation of a reorganization plan. Bankruptcy expenses are substantial, and the process is very time-consuming. Consequently, corporate management is devoting a major part of its time to guiding the company through the various Chapter 11 reorganization phases so that the operating companies can concentrate their efforts on day-to-day business actions to maximize earnings, cash flow and market penetration. Our goal is to complete this process at the earliest practical date.

Results of Operations

On April 11, 1991, the company reported its operating results for fiscal 1991. Included were major expenses as a result of the Chapter 11 reorganization filing, significant charges associated with discontinued operations and specific restructuring costs for the company's Converse subsidiary.

- Because of INTERCO's petition for a Chapter 11 reorganization, accounting regulations required that certain previously deferred interest and corporate restructuring expenses be written off in the final quarter, resulting in pretax charges approximating $25 million.
- During the fourth quarter INTERCO increased the provisions for disposition of discontinued operations by approximately $13 million. Future costs associated with these operations have been recognized and operating results going forward should no longer be burdened by these units.
- Converse's results reflected charges for closing its Puerto Rican manufacturing plant, restructuring its U.S. manufacturing and distribution facilities, special provisions related mainly to inventory adjustments and increased advertising and promotional spending. These actions, which resulted in charges totaling approximately $26 million, were taken to position Converse for substantially improved performance in the future.

Net sales from the operating companies in fiscal 1991 were $1.44 billion compared to $1.47 billion the prior year. Sales of the Footwear Group were $652.7 million, compared to $674.6 million a year ago, with Converse basically even and Florsheim down modestly. Furniture Group sales were $786.6 million versus $799.5 million the year before, with Broyhill down from the prior year and Lane slightly ahead. Sales levels at each of these companies were adversely affected by the soft U.S. economy last year. Results at Broyhill and Lane also reflected the longer term continuing recession in the furniture industry.

The operating companies' pretax operating earnings, before interest expense and corporate administrative, restructuring costs, and gain on the disposal of assets, declined to $84.5 million from $130.5 million, due mainly to the charges at Converse and the effect of the soft economy on all operating units. Florsheim's earnings rose more than 10 percent over the comparable prior year performance as it continues to benefit from its previous restructuring actions and successful new product releases. While Converse incurred a significant operating loss due to the reasons noted above, in recent months it has experienced a substantial increase in customer orders. At March 1, its backlog of undelivered orders was more than $30 million over the prior year. Operating earnings of the Furniture Group decreased to $75.3 million from $90.7 million the prior year. Despite these weaker results, which were significantly impacted by lower manufacturing levels in our plants, the Furniture Group continued to achieve a performance that was considerably better than most competitors in this very depressed market.

The net loss from continuing operations, after restructuring expenses, interest expense, asset dispositions and income taxes was $151.4 million compared with a net loss of $53.8 million last year. Including discontinued operations, the net loss was $176.3 million versus net income of $32.3 million a year ago which included net gains of $136.5 million from asset dispositions.

Asset Sale Program

Efforts to dispose of the remaining discontinued operations and surplus real estate continued in fiscal 1991, although progress was hampered by the significant decline in the availability of financing for potential purchasers of these assets. Due to lack of interest on the part of buyers, the company disposed of its Sky City Stores and Devon Apparel operations through controlled liquidations. In addition, similar liquidations of the assets of Megastar Apparel Group and Abe Schrader Corporation were commenced. Net proceeds for the year from these asset dispositions and the sale of miscellaneous real estate approximated $50 million. The company expects to complete the final disposition of all discontinued businesses during the next several months.

Board Changes

In November 1990, Thomas H. O'Leary retired from the Board of Directors after having served for more than twelve years. Duane A. Patterson, Secretary of INTERCO, was elected to the Board in January 1991. We particularly wish to express our appreciation to all of our Directors for their counsel and guidance during this difficult period.

Conclusion

The company has taken many steps in the past two years to dispose of discontinued operations and to streamline its remaining operations so as to position them for increased profitability and growth. The major task now is to promptly develop our plan of reorganization with the agreement of our creditors and obtain approval of that plan from the Bankruptcy Court.

In order for INTERCO to complete the task at hand, we will need the ongoing support of our customers and suppliers and continued dedicated efforts of all our employees. We appreciate the support of all of our stakeholders during this past year. We are determined to conclude INTERCO's reorganization as quickly as possible so as to maximize the long-term potential of our outstanding operating companies.

Sincerely,

R B Loynd

Richard B. Loynd
Chairman of the Board, President and
Chief Executive Officer

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Prior to the major recapitalization and restructuring program undertaken by the company in the third quarter of fiscal 1989, the operating results of the company were reported under four segments, namely, Apparel Manufacturing, General Retail Merchandising, Footwear Manufacturing and Retailing and Furniture and Home Furnishings. In the second and fourth quarters of fiscal 1989, the company announced that it would sell its Apparel Manufacturing and General Retail Merchandising Groups, respectively, and in accordance with Accounting Principles Board Opinion No. 30, these two segments were thereafter reported as discontinued operations. In addition, during fiscal 1990, the company sold Ethan Allen Inc. from its Furniture and Home Furnishings Group and a significant part of Senack Shoes, Inc. from its Footwear Manufacturing and Retailing Group.

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries (the "debtor") filed voluntary petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Eastern District of Missouri (the "Bankruptcy Court"). Under Chapter 11, enforcement of certain claims in existence prior to the filing of the petitions is stayed while the debtor continues the ordinary course of business operations as debtor-in-possession. These claims are reflected in the February 23, 1991 consolidated balance sheet as "liabilities subject to compromise" as discussed in note 9. The company has discontinued accruing interest on its unsecured pre-petition debt obligations. Additional claims may arise subsequent to the petition date resulting from rejection of executory contracts and/or leases, and from the allowance by the Bankruptcy Court of contingent and/or disputed claims.

Included in fiscal 1991 were restructuring expenses as a result of the Chapter 11 reorganization filing,significant charges associated with discontinued operations and restructuring costs for the company's Converse subsidiary. The company is focusing its attention on developing a reorganization plan in order to exit the Chapter 11 proceedings as soon as possible. Upon completion of its restructuring efforts, the company will manage four operations consisting of Broyhill and Lane in the furniture segment and Converse and Florsheim in the footwear segment. For management discussion and analysis purposes, management believes it would be more informative to concentrate on these four core operations.

Net Sales

Net sales of the operating companies by segment for the last three fiscal years were as follows, in millions:

Segment	**Fiscal 1991**	Fiscal 1990	Fiscal 1989
Furniture	**$ 786.6**	$ 799.5	$ 785.3
Footwear	**652.7**	674.6	789.5
Total	**$1,439.3**	$1,474.1	$1,574.8

For fiscal 1991, sales of the footwear companies declined $21.9 million, or 3.3% following a decline of $114.9 million, or 14.6% in fiscal 1990. The decrease in footwear sales in fiscal 1991 reflected the downsizing of the Florsheim women's wholesale operation and the closing of a number of Thayer McNeil Shoe Shops. The prior year decrease resulted mainly from the consolidation of the International Shoe Company into Florsheim and other restructurings at Florsheim during fiscal 1990, and a decline in sales at Converse due mainly to a softening in demand for fashion canvas footwear, both in the United States and overseas. The furniture companies sales decreased 1.6% from fiscal 1990, which increased 1.8% over the prior year.

Gross Margins

Gross margins of the operating companies for fiscal 1991 were 31.4% of net sales, as compared to 32.4% of net sales and 31.7% of net sales for fiscal 1990 and 1989, respectively.

Gross margins of the operating companies by segment for the last three fiscal years were as follows, in millions:

Segment	**Fiscal 1991**	Fiscal 1990	Fiscal 1989
Furniture	**$225.6**	$234.6	$228.9
Footwear	**226.7**	243.2	270.3
Total	**$452.3**	$477.8	$499.2

In fiscal 1991, gross margins of The Florsheim Shoe Company increased by more than 2 percentage points; however, this improvement was offset by the restructuring of the manufacturing and distribution facilities at Converse and special promotional pricing by Converse, as well as special provisions related mainly to inventory adjustments. Within the Furniture and Home Furnishings Group, each company recognized a slight decline in their gross margin percentage due mainly to the impact of the soft economic environment.

Fiscal 1990 margins of the operating companies were favorably affected by the cost reduction and operating efficiencies program implemented as part of INTERCO's restructuring program. This was partially offset by certain promotional pricing actions necessary because of overall soft economic conditions, unfavorable manufacturing variances due to the sales decline in canvas footwear and manufacturing start-up costs within the furniture segment.

Margins in fiscal 1989 were adversely impacted by the results of the Footwear Manufacturing and Retailing Group due to promotional costs and unfavorable manufacturing variances resulting from the sales decline in canvas footwear, manufacturing start-up costs within the athletic footwear operations and costs associated with plant closings and realignments within the men's traditional footwear operations. The Furniture and Home Furnishings Group's gross margins were about even with the prior year.

Effective in the second quarter ended August 31, 1990, the company changed its method of determining the cost of certain footwear manufacturing inventories to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method. This change in the method of valuing inventories has been applied retroactively and the gross margin reported for prior periods has been restated. This change decreased previously reported gross margins in fiscal 1990 and fiscal 1989 by $5.0 million and $3.0 million, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of the core companies, including corporate costs and expenses, were $385.3 million, $364.6 million and $395.8 million for fiscal 1991, 1990 and 1989, respectively. As a percent of net sales, selling, general and administrative expenses were 26.8% for fiscal 1991, as compared to 24.7% for fiscal 1990 and 25.1% for fiscal 1989.

The increase in selling, general and administrative expenses as a percent of net sales during fiscal 1991 mainly relates to Converse's increased advertising and promotional programs. Fiscal 1990 reflected a reduction of $31.2 million or 7.9% in the dollar amount of selling, general and administrative expenses from prior year levels due to the company's cost reduction and operating efficiencies program, offset somewhat by the decline in sales volume. Fiscal 1989 selling, general and administrative expenses were impacted by increased promotional, marketing and realignment costs within the Footwear Manufacturing and Retailing Group.

Operating Earnings

Operating earnings, before corporate administrative and restructuring expenses, interest expense and gain on the disposal of assets, were $84.5 million, $145.2 million and $174.3 million for fiscal years 1991, 1990 and 1989, respectively. In fiscal 1990, Ethan Allen Inc. and Senack Shoes, Inc. were included through the date of sale as compared with full year earnings in fiscal 1989.

Operating earnings of the operating companies by segment for the last three fiscal years were as follows, in millions:

Segment	**Fiscal 1991**	Fiscal 1990	Fiscal 1989
Furniture	**$75.3**	$ 90.7	$ 88.8
Footwear	**9.2**	39.8	35.6
Total	**$84.5**	$130.5	$124.4

Operating earnings for fiscal 1991 decreased $46.0 million or 35.2% from fiscal 1990 due mainly to restructuring costs at Converse and the effect of the soft economy on all operating units.

Restructuring Expenses

In fiscal 1991, restructuring expenses of $21.2 million relate to the write-off of previously deferred expenses and other costs associated with the restructuring efforts prior to the bankruptcy filing.

In the third quarter of fiscal 1989, a one-time charge of $14.0 million for restructuring expenses, which was nondeductible for income tax purposes, was incurred relating to the Fiscal 1989 Recapitalization.

Interest Expense

Interest expense in fiscal 1991 totaled $259.5 million, compared to $303.1 million in fiscal 1990 and $141.7 million in fiscal 1989.

Fiscal 1991 included interest expense consisting of $120.5 million relating to the Secured Credit Agreement and the medium term notes, $133.7 million on the debentures, $2.0 million in debtor-in-possession financing costs, and miscellaneous interest expense of $3.3 million. Interest expense decreases from the prior year on the Secured Credit Agreement were the result of the reduction in the asset sale bridge loan and lower interest rates. The company stopped providing interest expense on its debt obligations considered unsecured as of January 24, 1991.

Fiscal 1990 included interest expense consisting of $164.0 million on the Secured Credit Agreement and the medium term notes, $133.7 million on the debentures and miscellaneous interest expense of $5.4 million.

In fiscal 1989, interest expense of $104.1 million related to the Fiscal 1989 Recapitalization program and interest on the $200.0 million of medium term notes issued in the fourth quarter of the prior year.

Other Income and Expense, Net

Other income and expense, net for fiscal 1991 was $8.1 million compared to $111.3 million in 1990 and $18.9 million in 1989. The increase in fiscal 1990 was due to the gain on the sale of Ethan Allen Inc., a part of Senack Shoes, Inc. and certain other corporate assets. Proceeds from these sales amounted to $398.5 million before income taxes, with net after-tax proceeds used to reduce long-term debt.

Earnings (Loss) From Continuing Operations Before Income Tax Expense (Benefit)

Earnings (loss) from continuing operations before income tax expense (benefit) were $(215.5) million, as compared to $(63.6) million and $12.7 million in fiscal 1990 and 1989, respectively. Earnings were adversely impacted by interest expense and other costs incurred in the company's restructuring programs, in addition to the operating and realignment costs and expenses noted above. Also, fiscal 1990 results included a pretax gain of $101.9 million from the disposal of assets.

Income Tax Expense (Benefit)

In fiscal 1991, an income tax recovery of $80.1 million was recorded including continuing and discontinued operations, producing an effective tax rate of a negative 31.2%. Tax provisions for fiscal 1990 and 1989 were $40.0 million and $73.8 million, respectively, with an effective tax rate of 55.4% in fiscal 1990 and 51.9% in fiscal 1989. The effective tax rate was adversely affected by provisions for foreign, state and local income taxes, higher gains on asset dispositions for tax purposes than for financial reporting purposes and certain nondeductible expenses incurred, including the restructuring expense in fiscal 1989. The fiscal 1991 federal income tax recovery is expected to be realized in fiscal 1992.

Discontinued Operations

Net earnings (loss) from discontinued operations were $(25.0) million, $86.1 million and $74.4 million in fiscal 1991, 1990 and 1989, respectively. Included in discontinued operations are the results of operations of the Apparel Manufacturing and General Retail Merchandising Groups in all years as well as the $13.1 million provision for losses in fiscal 1991 on the operations in liquidation at February 23, 1991 and the net gain realized in fiscal 1990 from the sale of Big Yank Corporation, Cowden Manufacturing Company, Central Hardware Company, International Hat Company, Golde's Department Stores, Inc., Fine's Men's Shops, Incorporated, United Shirt Distributors, Inc. and Stuffed Shirt Inc. amounting to $119.4 million before income taxes and $74.6 million after taxes. In fiscal 1989, the net gain from the sale of assets amounted to $61.9 million before income taxes and $33.9 million after taxes and included goodwill charges related to the two groups, as well as the gain recognized on the sale of Londontown and other assets. Proceeds from the disposal of these operations approximated $64.1 million in fiscal 1991, $338.0 million in

fiscal 1990 and $220.0 million in fiscal 1989 before income taxes. Net after-tax proceeds were used to reduce long-term debt and provide for an escrow account for future payment on debt in fiscal 1991 and to reduce long-term debt in fiscal 1990 and 1989.

Management anticipates disposal of the remaining discontinued operations will be completed during fiscal 1992 with net after-tax proceeds to be distributed as directed by the United States Bankruptcy Court. Additional information is contained in note 3 to the consolidated financial statements.

Earnings (Loss) Per Common Share

Net earnings (loss) per common share from continuing operations were $(6.38), $(3.57) and $(0.49) in fiscal 1991, 1990 and 1989, respectively. Net earnings (loss) per common share, including discontinued operations, were $(7.03), $(1.34) and $1.56 in fiscal 1991, 1990 and 1989, respectively.

Net earnings (loss) per common share in fiscal 1991, 1990 and 1989 were reduced by the Series D and Series E Preferred Stock dividend requirements of $95.8 million, $83.8 million and $11.8 million, respectively.

Average shares used in the calculation of net earnings (loss) per common share were 38,720,000 in fiscal 1991, 38,585,000 in fiscal 1990 and 36,348,000 in fiscal 1989.

FINANCIAL CONDITION

Working Capital

Current assets were $831.6 million at February 23, 1991 compared to $837.9 million and $1,205.8 million at February 24, 1990 and February 25, 1989, respectively. Cash and temporary investments were $96.6 million at February 23, 1991, an increase of $48.2 million over the prior year. At February 23, 1991, accounts receivable and inventories were down from the prior year which was offset in the current year by a projected income tax recovery of $81.7 million. February 25, 1989 included the current assets of Ethan Allen Inc. sold on June 29, 1989 and Senack Shoes, Inc., substantially all of which was sold in the second quarter ended August 31, 1989. Also reflected in current assets at February 23, 1991, February 24, 1990 and February 25, 1989 were net current assets of discontinued operations held for sale. This amount was reduced substantially by February 23, 1991.

The amount reflected as current liabilities at the end of each fiscal year is distorted by the accounting treatment required. Due to the bankruptcy filing on January 24, 1991, substantially all the current liabilities were reclassified to long-term as liabilities subject to compromise at February 23, 1991. At the end of fiscal 1990, the company was not in compliance with the covenants under its Secured Credit Agreement and substantially all long-term debt was reclassified as a current liability. As a result, the current ratios are not comparative.

Financing Arrangements

In conjunction with its Chapter 11 bankruptcy filing, the debtor entered into a debtor-in-possession financing facility (the "DIP Financing Facility") in the amount of $150.0 million with a group of banks. The DIP Financing Facility is composed of a $100.0 million revolving credit loan facility and a $110.0 million letter of credit facility. However, the total amount outstanding under the DIP Financing Facility may not exceed $150.0 million or an amount based on eligible accounts (inventories and receivables) in accordance with a borrowing base calculation under the facility.

The DIP Financing Facility is secured by a first priority lien on and security interest in substantially all of the property of the debtor. On March 21, 1991, the Bankruptcy Court entered a final order approving the DIP Financing Facility which terminates the earlier of January 24, 1992 or upon confirmation of a plan of reorganization. The company paid a facility fee of 2% of the maximum commitment of $150.0 million.

The outstanding borrowings under the revolving credit loan facility bear interest at the greater of prime rate plus 2% or the federal funds rate plus 2½% determined daily. At February 23, 1991, there were no borrowings outstanding under the revolving credit loan facility.

Under the letter of credit facility, a fee of 1% per annum on the daily combined average of the stated amount of all such letters of credit outstanding is assessed for the account of the lenders ratably. This fee increases to 2½% per annum to the extent that letters of credit outstanding exceed cash and temporary cash investments on deposit in a letter of credit cash collateral account which totaled $28.7 million at February 23, 1991. A further fee of ¼ of 1% per annum on the combined daily average of the stated amount of all such letters of credit outstanding and a customary administrative charge for issuance of letters of credit are payable to the relevant issuing banks. Letter of credit fees are payable quarterly in arrears. At February 23, 1991, there were $12.9 million in letters of credit outstanding under this facility.

The company is required to pay a commitment fee of ½ of 1% per annum on the average daily unused portion of the commitments of the banks, payable quarterly in arrears, until such commitments are terminated. The company also pays an annual agency fee of $250 thousand.

Under the DIP Financing Facility, the company is required to satisfy certain financial tests including; (i) a minimum adjusted earnings level before interest, taxes, depreciation and amortization and (ii) a maximum level of capital expenditures. The debtors are in compliance with all covenants applicable as of February 23, 1991.

In fiscal 1989, the company entered into the Secured Credit Agreement with a group of banks. The loans available under the Secured Credit Agreement consisted of a $1,150.0 million Asset Sale Bridge Facility, a $265.0 million Term Loan/Mortgage Bridge Facility, a $250.0 million Borrowing Base Facility and a $250.0 million Seasonal Working Capital Facility providing for letters of credit as well as for loans. On November 29, 1988, the company borrowed $1,655.0 million to pay the cash portion of the special dividend as part of the company's Fiscal 1989 Recapitalization and to refinance existing debt.

The company received amendments and waivers, dated as of May 7, 1990, July 16, 1990, July 25, 1990, August 10, 1990 and November 15, 1990, from the bank syndicate on its Secured Credit Agreement. The amendments and waivers extended the dates for certain principal and interest payments to February 28, 1991, waived compliance with certain financial covenants under the agreement and modified the allocation of the company's credit availability under its Seasonal Working Capital Facility. As a result of the company's Chapter 11 bankruptcy filing, all liabilities associated with the Secured Credit Agreement, as of January 24, 1991, are stayed and the maturity and terms of the long-term debt subsequent to the petition date will result from the plan of reorganization upon confirmation by the Bankruptcy Court.

The company believes that the DIP Financing Facility, together with cash generated from operations, will meet all its financing needs for the foreseeable future.

Capital Expenditures

Capital expenditures in fiscal 1991 were $19.6 million as compared to $29.7 million in fiscal 1990. Depreciation expense was $30.8 million as compared to $34.0 million in fiscal 1990. For fiscal 1992, capital expenditures are projected to be approximately $30.0 million.

Dividends

During fiscal 1991 and fiscal 1990, the company did not pay dividends on its Common, Series D Preferred or Series E Preferred Stock. Dividend arrearage on the Series D Preferred Stock at February 23, 1991 was $201 thousand.

Dividend payments on the Series E Preferred Stock are payable in cash or, prior to December 15, 1994, in Series E Preferred Stock and, if not paid in cash or stock, the aggregate liquidation preference increases 4.375% quarterly. Since dividends were not declared, the liquidation preference increased $73.6 million during fiscal 1991 and $62.0 million during fiscal 1990, or 18.68% in each year.

The company paid regular cash dividends of $31.1 million on the common stock and $1.9 million on the Series D Preferred Stock during fiscal 1989. In addition, in connection with the Fiscal 1989 Recapitalization, the company distributed cash dividends of $1,422.2 million and noncash dividends of $1,003.1 million representing the debentures and the Series E Preferred Stock. The company also paid $0.9 million in fiscal 1989 to redeem its common stock purchase rights.

INTERCO Consolidated Financial Statements

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Consolidated Balance Sheet

(Dollars in thousands)

Assets	**February 23, 1991**	February 24, 1990	February 25, 1989
Current assets:			
Cash	**$ 26,976**	$ 20,642	$ 16,308
Short-term investments	**69,583**	27,687	61,317
Receivables, less allowances of $7,426 ($6,153 in 1990 and $10,599 in 1989)	**258,688**	296,546	329,299
Income tax refund receivable	**81,668**	—	—
Inventories	**337,354**	360,475	508,901
Prepaid expenses and other current assets	**43,034**	44,775	41,625
Net current assets of discontinued operations held for sale (note 3)	**14,340**	87,735	248,361
Total current assets	**831,643**	837,860	1,205,811
Net noncurrent assets of discontinued operations held for sale (note 3)	**7,290**	27,112	98,011
Property, plant and equipment:			
Land	**8,743**	8,728	19,105
Buildings and improvements	**195,408**	192,651	321,591
Machinery and equipment	**227,168**	223,037	257,043
	431,319	424,416	597,739
Less accumulated depreciation	**259,207**	237,497	270,669
Net property, plant and equipment	**172,112**	186,919	327,070
Cash held in trust (note 7)	**25,517**	—	—
Other assets	**109,000**	109,339	162,344
	$1,145,562	$1,161,230	$1,793,236

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Deficit	**February 23, 1991**	February 24, 1990	February 25, 1989
Current liabilities:			
Notes payable	**$ 951**	$ 3,444	$ 6,017
Current maturities of long-term debt	**—**	386,630	509,961
Long-term debt and debentures classified as current (notes 7 and 8)	—	1,492,587	—
Accounts payable	**48,959**	89,186	99,231
Accrued employee compensation	**15,942**	20,747	27,317
Accrued interest	**10,955**	17,395	35,339
Other accrued expenses	**33,416**	51,912	53,618
Income taxes	**1,682**	18,735	4,785
Total current liabilities	**111,905**	2,080,636	736,268
Long-term debt, less current maturities	**—**	3,176	1,178,180
Debentures	**—**	—	808,657
Other long-term liabilities	**31,210**	36,376	65,318
Liabilities subject to compromise (note 9)	**2,137,658**	—	—
Shareholders' deficit:			
Preferred stock, authorized 10,000,000 shares:			
Series D, no par value—issued 11,516 shares in 1991, 11,743 shares in 1990 and 19,103 shares in 1989	**1,151**	1,174	1,910
Series E, $1.00 stated value—issued 3,320,702 shares with an aggregate liquidation preference of $467,737 at 1991, $394,108 at 1990 and $332,070 at 1989	**3,321**	3,321	3,321
Common stock, $0.10 stated value in 1991 and $3.75 stated value in 1990 and 1989, authorized 150,000,000 shares—issued 38,729,263 shares in 1991, 38,708,606 shares in 1990 and 41,356,847 shares in 1989	**3,873**	145,157	155,088
Paid-in capital	**199,079**	57,772	179,337
Accumulated deficit	**(1,342,635)**	(1,166,382)	(1,197,687)
	(1,135,211)	(958,958)	(858,031)
Less common stock in treasury, at cost (3,493,812 shares in 1989)	**—**	—	137,156
Total shareholders' deficit	**(1,135,211)**	(958,958)	(995,187)
	$ 1,145,562	$1,161,230	$1,793,236

Consolidated Statement of Operations

(Dollars in thousands except per share data)

Years Ended	**February 23, 1991**	February 24, 1990	February 25, 1989
Net sales	**$1,439,246**	$1,656,079	$2,011,962
Cost of sales	**992,209**	1,102,572	1,338,693
Gross profit	**447,037**	553,507	673,269
Selling, general and administrative expenses	**389,906**	425,246	523,797
Restructuring expenses	**21,249**	—	14,000
Earnings from operations	**35,882**	128,261	135,472
Interest expense	**259,495**	303,123	141,735
Other income and expense, net:			
Other income, net	**7,467**	9,362	18,943
Gain on disposal of assets	**664**	101,920	—
	8,131	111,282	18,943
Earnings (loss) from continuing operations before income tax expense (benefit)	**(215,482)**	(63,580)	12,680
Income tax expense (benefit)	**(64,108)**	(9,752)	18,738
Net loss from continuing operations	**(151,374)**	(53,828)	(6,058)
Discontinued operations (net of tax expense (benefit) of $(16,018) in 1991, $49,765 in 1990 and $55,047 in 1989)	**(24,962)**	86,082	74,432
Net earnings (loss)	**(176,336)**	32,254	68,374
Less preferred stock dividend requirements	**(95,761)**	(83,838)	(11,784)
Net earnings (loss) applicable to common stock	**$ (272,097)**	$ (51,584)	$ 56,590
Earnings (loss) per common share:			
Net loss from continuing operations	**$(6.38)**	$(3.57)	$(0.49)
Net earnings (loss) applicable to common stock	**$(7.03)**	$(1.34)	$ 1.56
Weighted average common shares outstanding	**38,720,000**	38,585,000	36,348,000

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Dollars in thousands)

Years Ended	February 23, 1991	February 24, 1990	February 25, 1989
Cash Flows from Operating Activities:			
Net loss from continuing operations	**$ (151,374)**	$ (53,828)	$ (6,058)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Gain on disposal of assets	**(664)**	(101,920)	—
Depreciation of property, plant and equipment	**30,771**	33,980	40,037
Amortization of intangible assets and other noncash charges	**31,835**	6,987	3,280
Noncash interest expense	**90,985**	102,581	30,884
Increase (decrease) in deferred income taxes	**2,970**	(17,846)	(14,194)
(Increase) decrease in receivables	**37,858**	(12,654)	(19,246)
Decrease in inventories	**23,121**	24,491	26,241
Increase in prepaid expenses and other current assets	**(20,708)**	(8,052)	(1,228)
Increase in cash held in trust	**(25,517)**	—	—
Increase (decrease) in accounts payable and accrued expenses	**73,638**	(25,820)	38,084
Increase in deferred charges, net	**(21,912)**	(7,735)	(45,439)
Increase (decrease) in income taxes	**(93,097)**	13,372	(11,821)
Net cash provided (used) by operating activities of continuing operations	**(22,094)**	(46,444)	40,540
Net cash provided by discontinued operations	**68,255**	317,607	249,704
Net cash provided by operating activities	**46,161**	271,163	290,244
Cash Flows from Investing Activities:			
Net cash proceeds from the disposal of assets	**6,635**	398,483	4,134
Additions to property, plant, and equipment	**(19,612)**	(29,663)	(50,966)
Net cash provided (used) by investing activities	**(12,977)**	368,820	(46,832)
Cash Flows from Financing Activities:			
Proceeds from the sale or issuance of common stock	**—**	4,924	19,994
Payments to acquire treasury stock	**—**	—	(102,341)
Dividends paid	**—**	—	(1,456,162)
Additions to long-term debt	**56,900**	175,043	1,967,500
Reduction of long-term debt and notes payable	**(41,854)**	(849,246)	(617,401)
Other	**—**	—	(676)
Net cash provided (used) by financing activities	**15,046**	(669,279)	(189,086)
Net increase (decrease) in cash and cash equivalents	**48,230**	(29,296)	54,326
Cash and cash equivalents at beginning of year	**48,329**	77,625	23,299
Cash and cash equivalents at end of year	**$ 96,559**	$ 48,329	$ 77,625
Supplemental Disclosure:			
Cash payments for income taxes	**$ 4,848**	$ 40,169	$ 52,067
Cash payments for interest, net of amounts capitalized	**$ 87,236**	$ 218,042	$ 73,926
Cash flow effect of reorganization activities:			
Deferral of long-term debt due to reorganization activities	**$ 1,007,882**	$ —	$ —
Deferral of debentures due to reorganization activities	**965,507**	—	—
Deferral of accounts payable and other liabilities due to reorganization activities	**164,269**	—	—
Increase in liabilities subject to compromise	**$ 2,137,658**	$ —	$ —

See accompanying notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity (Deficit)

(Dollars in thousands except per share data)

	Preferred Stock		Common Stock		Paid-in	Retained Earnings	
	Series D	Series E	Issued	Treasury	Capital	(Deficit)	Total
Balance February 29, 1988							
As originally reported	$57,113	$ —	$155,088	$(185,367)	$ 44,539	$ 1,179,964	$ 1,251,337
Adjustment for change in valuation of inventories						12,339	12,339
As restated	57,113	—	155,088	(185,367)	44,539	1,192,303	1,263,676
Net earnings						68,374	68,374
Cash dividends:							
Preferred stock						(1,944)	(1,944)
Common stock—$0.86						(31,086)	(31,086)
Common stock rights—$0.025						(875)	(875)
Special cash—$38.60						(1,422,257)	(1,422,257)
Securities dividends:							
Debentures—$21.66						(789,657)	(789,657)
Preferred stock—$5.79		3,321			210,160	(213,481)	—
Retirement of capital stock:							
Common—3,900,549 shares			(14,627)	150,552	(135,925)	—	—
Conversion of preferred stock:							
Series D—552,030 shares	(55,203)		11,388		43,808		(7)
Issuance of common stock:							
Options—564,820 shares			2,118		15,735		17,853
Restricted stock—299,011 shares			1,121		1,020		2,141
Purchase of 2,220,550 shares				(102,341)			(102,341)
Foreign currency translations						936	936
Balance February 25, 1989	1,910	3,321	155,088	(137,156)	179,337	(1,197,687)	(995,187)
Net earnings						32,254	32,254
Retirement of capital stock:							
Common—3,493,812 shares			(13,102)	137,156	(124,054)		—
Conversion of preferred stock:							
Series D—7,360 shares	(736)		2,512		(1,776)		—
Issuance of common stock:							
Options—159,040 shares			596		(302)		294
Restricted stock—16,764 shares			63		4,567		4,630
Foreign currency translations						(949)	(949)
Balance February 24, 1990	1,174	3,321	145,157	—	57,772	(1,166,382)	(958,958)
Net loss						(176,336)	(176,336)
Conversion of preferred stock:							
Series D—227 shares	(23)		5		18		—
Reduction in stated value of common stock to $0.10 per share			(141,289)		141,289		—
Foreign currency translations						83	83
Balance February 23, 1991	$ 1,151	$3,321	$ 3,873	$ —	$199,079	$(1,342,635)	$(1,135,211)

See accompanying notes to consolidated financial statements.

1. Petition for Relief Under Chapter 11

As a result of a recapitalization plan adopted in fiscal 1989 (the "Fiscal 1989 Recapitalization"), INTERCO INCORPORATED and all of its subsidiaries (the company) distributed to holders of its common stock $1.42 billion in cash, approximately $1.0 billion face amount of debentures and 3,320,702 shares of its Series E Preferred Stock. The recapitalization immediately changed the company's capital structure to one that is highly leveraged. To meet the interest expense and principal repayment obligations of the indebtedness incurred in connection with the recapitalization, the company embarked on a program to lower its cost structure and streamline its business to allow senior management to focus its attention on four operating companies, Broyhill Furniture Industries, Inc., The Lane Company, Incorporated, The Florsheim Shoe Company and Converse Inc., and to sell its non-core businesses and certain other assets to repay certain of its debt obligations. The company charged to results of operations $14,000 of restructuring expenses as a result of the Fiscal 1989 Recapitalization.

The proceeds of the company's asset sales have, however, been significantly below the amounts expected and, due to adverse market conditions, the company has not mortgaged any real estate assets. In addition, operating results have been lower than anticipated, particularly in the Footwear Manufacturing and Retailing segment. As a result, the company was servicing substantially more debt than originally anticipated. Throughout fiscal 1991, the company sought a restructuring plan to achieve changes in the company's debt and capital structure to alleviate these problems and avoid the necessity of filing for bankruptcy. As a result of attempting to implement such a plan, the company incurred restructuring expenses of $21,249.

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries (the "debtor") filed voluntary petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Eastern District of Missouri (the "Bankruptcy Court"). Under Chapter 11, enforcement of certain claims in existence prior to the filing of the petitions is stayed, while the debtor continues the ordinary course of business operations as debtor-in-possession. These claims are reflected in the February 23, 1991 consolidated balance sheet as "liabilities subject to compromise" as discussed in note 9. The company has discontinued accruing interest on its unsecured pre-petition debt obligations. Additional claims may arise subsequent to the petition date resulting from rejection of executory contracts and/or leases and from the allowance by the Bankruptcy Court of contingent and/or disputed claims.

Enforcement of claims secured by the debtor's assets ("secured claims") also is stayed, although the holders of such claims have the right to petition the court for relief from the stay. Secured claims are secured primarily by liens on substantially all of the debtor's assets including, cash, short-term investments, receivables, inventories and property, plant and equipment. The value of collateral security for any secured pre-petition debt obligations cannot be determined until a plan of reorganization is confirmed. For financial statement presentation, secured debt is also being accounted for as liabilities subject to compromise.

The debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its pre-petition obligations, including employee wages and benefits; and accordingly, these amounts have been included in the appropriate liability captions on the consolidated balance sheet. In addition, the Bankruptcy Court approved the debtor's entering into a $150 million debtor-in-possession financing facility which is discussed in note 6.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 filings and circumstances relating to this event, including the company's highly leveraged financial structure, such continuity of operations and realization of assets and liquidation of liabilities is subject to significant uncertainty. While under the protection of Chapter 11, the company may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. Further, a plan of reorganization could materially change the amounts reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of a plan of reorganization. The appropriateness of using the going-concern basis is dependent upon, among other things, the confirmation of a plan of reorganization, the ability to comply with debtor-in-possession financing agreements, generation of sufficient cash from operations and financing sources to meet obligations and achievement of satisfactory levels of future operating profit.

2. Significant Accounting Policies

The company follows generally accepted accounting principles to present fairly its consolidated financial position, results of operations and cash flows. The major accounting policies of the company are set forth below.

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all its subsidiaries, the majority of which are wholly owned. All material intercompany transactions have been eliminated in consolidation.

Fiscal Year—The company's fiscal year ends on the last Saturday in February.

Cash Equivalents—The company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Inventories—Inventories are stated at the lower of cost (first-in, first-out) or market. Effective in the second quarter of fiscal 1991, certain footwear manufacturing inventories which were previously valued on the last-in, first-out (LIFO) method of inventory valuation were retroactively restated to the first-in, first-out (FIFO) method.

Property, Plant and Equipment—Property, plant and equipment are stated at cost. Expenditures for improvements are capitalized while normal repairs and maintenance are expensed as incurred. When properties are disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts and gains or losses on the dispositions are reflected in results of operations. For financial reporting purposes, the company utilizes both accelerated and straight-line methods of computing depreciation and amortization. Such expense is computed based on the estimated useful lives of the respective assets, which generally range from 5 to 50 years for buildings and improvements and from 3 to 11 years for machinery and equipment.

Excess of Cost Over Fair Value of Net Assets Acquired—The excess of cost over fair value of net assets of companies acquired is included in other assets and is generally amortized on a straight-line basis over periods ranging from 25 to 40 years.

Income Taxes—Deferred income taxes are provided on transactions which are reported for financial reporting purposes in different periods than for income tax reporting purposes. It is the company's intent that undistributed earnings of its subsidiaries will either be reinvested in the subsidiaries or distributed tax-free to the parent company. Generally, no provision has been made for income taxes on such undistributed earnings.

The Financial Accounting Standards Board issued Statements Nos. 96 and 103, which require an asset and liability approach to accounting for deferred income taxes for fiscal years beginning after December 15, 1991. Initial adoption of the new standards may be done on either a prospective or retroactive basis. There are current proposals being discussed to revise the application and timing of these standards; therefore, management has not determined the method or period in which they will adopt the new standards or quantified the anticipated impact on the consolidated financial statements upon such implementation.

Earnings (Loss) Per Common Share—Earnings (loss) per common share are based on the weighted average number of shares of common stock outstanding during the year. Common stock equivalents and the conversion of Series D Preferred Stock were not included in computations of earnings (loss) per common share as they are not dilutive. Earnings (loss) per common share are reduced by the dividend requirements on Series D and Series E Preferred Stock.

Reclassification—Certain fiscal 1990 and 1989 amounts have been reclassified to conform to the fiscal 1991 presentation.

3. Discontinued Operations

In fiscal 1989, the company announced its intent to offer for sale the Apparel Manufacturing segment and the General Retail Merchandising segment. In accordance with Accounting Principles Board Opinion No. 30, the financial results for these segments are reported as "Discontinued Operations".

Condensed results of the discontinued operations were as follows:

	1991	1990	1989
Net sales	**$157,898**	$568,406	$1,265,789
Earnings (loss) before income tax expense (benefit)	**$ (10,274)**	$ 16,493	$ 67,543
Income tax expense (benefit)	**(3,531)**	5,013	27,047
Net earnings (loss)	**(6,743)**	11,480	40,496
Gain (loss) on disposal (net of income tax expense (benefit) of $(12,487), $44,752 and $28,000 for 1991, 1990 and 1989, respectively)	**(18,219)**	74,602	33,936
	$ (24,962)	$ 86,082	$ 74,432
Accounts receivable, net	**$ 25,745**	$ 45,913	$ 122,737
Inventories	**8,335**	74,316	205,531
Other current assets	**6,721**	10,667	17,615
Total current assets	**40,801**	130,896	345,883
Current liabilities	**26,461**	43,161	97,522
Net current assets	**$ 14,340**	$ 87,735	$ 248,361
Property, plant and equipment, net	**$ 17,383**	$ 28,707	$ 139,531
Other assets	**2,039**	7,026	4,061
Total	**19,422**	35,733	143,592
Long-term liabilities	**6,831**	8,621	45,581
Liabilities subject to compromise	**5,301**	—	—
Net noncurrent assets	**$ 7,290**	$ 27,112	$ 98,011

In fiscal 1991, the company disposed of Sky City Stores, Inc. and Devon Apparel through controlled liquidations. In addition, the company commenced similar liquidations of the assets of Megastar Apparel Group and Abe Schrader Corporation. These asset dispositions, along with the sale of certain miscellaneous real estate, grossed the company approximately $64,139 in cash. Management anticipates that disposal of the remaining assets in the Apparel Manufacturing segment will be completed during fiscal 1992.

In fiscal 1990, the company disposed of its Central Hardware Company, Big Yank Corporation, Cowden Manufacturing Company, Fine's Men's Shops, Incorporated, United Shirt Distributors, Inc., Stuffed Shirt Inc., International Hat Company and Golde's Department Stores, Inc. subsidiaries, plus certain real estate, for approximately $338,000 in cash (net of commissions).

In fiscal 1989, the company completed the sale of its Londontown Corporation subsidiary for $178,000 in cash and sold the assets, net of liabilities, of The Biltwell Company, Inc. for approximately $42,000 in cash. The gains recognized on these sales include the write-off of $20,564 in goodwill, which was associated mainly with the Apparel Manufacturing segment and was nondeductible for income tax purposes.

All costs and expenses (including anticipated operating losses through the final liquidation date) are accrued and are included in gain (loss) on disposal. The net gains and losses recognized on asset dispositions are reflected in the condensed results of the discontinued operations as gain (loss) on disposal.

4. Gain on Disposal of Assets

On June 29, 1989, the company sold its Ethan Allen Inc. subsidiary for approximately $388,000 consisting of $357,000 in cash, certain real estate assets and the assumption by the buyer of $23,500 of existing debt and capitalized leases. In addition to the $388,000, the company received warrants to purchase up to 8% of the common stock of the purchaser. Additionally, on September 18, 1989, the company sold certain furniture, fixtures and inventories of its Senack Shoes, Inc. subsidiary for approximately $36,300 in cash. The net gain of $101,920 recognized on these sales, and sales of certain other corporate assets, is included in other income and expense, net in the consolidated statement of operations for fiscal 1990.

5. Inventories

Inventories are summarized as follows:

	1991	1990	1989
Retail merchandise	**$ 65,302**	$ 83,079	$129,723
Finished products	**168,544**	167,763	223,855
Work-in-process	**41,388**	42,449	54,321
Raw materials	**62,120**	67,184	101,002
	$337,354	$360,475	$508,901

Effective in the second quarter of fiscal 1991, the company changed its method of determining the cost of certain footwear manufacturing inventories to the first-in, first-out (FIFO) method from the last-in, first-out (LIFO) method.

The use of the LIFO method has resulted in reporting certain footwear manufacturing inventories at amounts substantially less than their current replacement cost, which distorts the company's actual financial condition and restricts its borrowing capacity. The company's aggregate loans outstanding under the Borrowing Base Facility of the Secured Credit Agreement (as well as the debtor-in-possession financing facility) may not exceed the "borrowing base," as defined by these facilities, as amended. The borrowing base is computed by reference to, among other things, the amount of inventory reflected in the company's consolidated balance sheet. Management believes the valuation of all its inventories using the FIFO method more appropriately reflects its financial condition. Under the current circumstances, the use of the LIFO method no longer has a significant impact on the company's statement of operations. Additionally, the change to FIFO for certain footwear manufacturing inventories will conform all the company's inventories to the same valuation method.

The change in the method of valuing inventories has been applied retroactively and comparative amounts for prior periods have been restated. This change increased inventories by approximately $12,920 and $17,934 as of February 24, 1990 and February 25, 1989, respectively, and reduced the previously reported accumulated deficit as follows:

	February 24, 1990	February 25, 1989
Accumulated deficit, as previously reported	$(1,173,992)	$(1,208,250)
Adjustment for change in method of valuing inventories, net of income taxes	7,610	10,563
Accumulated deficit, as restated	$(1,166,382)	$(1,197,687)

The effect of this change on the company's results of operations for fiscal years 1990 and 1989 was not material.

6. Short-Term Financing

In conjunction with its Chapter 11 bankruptcy filing, the debtor entered into a debtor-in-possession financing facility (the "DIP Financing Facility") in the amount of $150,000 with a group of banks. The DIP Financing Facility is composed of a $100,000 revolving credit loan facility and a $110,000 letter of credit facility. However, the total amount outstanding under the DIP Financing Facility may not exceed $150,000 or an amount based on eligible accounts (primarily inventories and receivables), in accordance with a borrowing base calculation under the facility.

The DIP Financing Facility is secured by a first priority lien on and security interest in substantially all of the property of the debtor. On March 21, 1991, the Bankruptcy Court entered a final order approving the DIP Financing Facility which terminates the earlier of January 24, 1992 or upon confirmation of a plan of reorganization. The company paid a facility fee of 2% of the maximum commitment of $150,000 which will be amortized over the original one-year term or expensed upon termination of the facility if earlier.

The outstanding borrowings under the revolving credit loan facility bear interest at the greater of prime rate plus 2% or the federal funds rate plus 2½% determined daily. At February 23, 1991, there were no borrowings outstanding under the revolving credit loan facility.

Under the letter of credit facility, a fee of 1% per annum on the daily combined average of the stated amount of all such letters of credit outstanding is assessed for the account of the lenders ratably. This fee increases to 2½% per annum to the extent that letters of credit outstanding exceed cash and temporary cash investments on deposit in a letter of credit cash collateral account which totaled $28,748 at February 23, 1991. A further fee of ¼ of 1% per annum on the combined daily average of the stated amount of all such letters of credit outstanding and a customary administrative charge for issuance of letters of credit are payable to the relevant issuing banks. Letter of credit fees are payable quarterly in arrears. At February 23, 1991, there was $12,879 in letters of credit outstanding under the DIP Facility.

The company is required to pay a commitment fee of ½ of 1% per annum on the average daily unused portion of the commitments of the banks, payable quarterly in arrears, until such commitments are terminated. The company also pays an annual agency fee of $250.

Under the DIP Financing Facility, the company is required to satisfy certain financial tests including: (i) a minimum adjusted earnings level before interest, taxes, depreciation and amortization and (ii) a maximum level of capital expenditures. The debtor is in compliance with all covenants applicable as of February 23, 1991.

The company's prior revolving credit facilities, enabling it to borrow up to $200,000 from several U.S. and foreign banks under various borrowing options, were replaced in fiscal 1989 by the Secured Credit Agreement.

7. Long-Term Debt

Long-term debt consisted of the following:

	1991	1990	1989
Secured Credit Agreement	**$ 793,150**	$ 773,493	$1,424,847
7.95% to 8.875% promissory notes due 1991 to 1993	**200,000**	200,000	200,000
6.0% to 8.75% industrial revenue bonds payable in varying amounts through 2004	**14,167**	15,734	41,352
Capital lease obligations	**565**	1,115	10,877
Other debt	**—**	—	11,065
	1,007,882	990,342	1,688,141
Less current maturities	**—**	(386,630)	(509,961)
Less amounts classified as current	**—**	(600,536)	—
Less liabilities subject to compromise	**(1,007,882)**	—	—
	$ —	$ 3,176	$1,178,180

As discussed in note 1 to the consolidated financial statements, the debtor filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. As a result, contractual terms have been suspended with respect to debt subject to compromise. The following paragraphs include discussion of the original contractual terms of the long-term debt; however, the maturity and terms of the long-term debt subsequent to the petition date will result from the plan of reorganization upon confirmation by the Bankruptcy Court.

In fiscal 1989, the company entered into the Secured Credit Agreement with a group of banks. The loans available under the Secured Credit Agreement consisted of a $1,150,000 Asset Sale Bridge Facility, a $265,000 Term Loan/Mortgage Bridge Facility, a $250,000 Borrowing Base Facility and a $250,000 Seasonal Working Capital Facility providing for letters of credit as well as for loans. On November 29, 1988, the company borrowed $1,655,000 to pay the cash portion of the special dividend as part of the company's Fiscal 1989 Recapitalization and to refinance existing debt.

The company received amendments and waivers, dated as of May 7, 1990, July 16, 1990, July 25, 1990, August 10, 1990 and November 15, 1990, from the bank syndicate on its Secured Credit Agreement. The amendments and waivers extended the dates for certain principal and interest payments to February 28, 1991, waived compliance with certain financial covenants under the agreement and modified the allocation of the company's credit availability under its Seasonal Working Capital Facility. As a result of the company's Chapter 11 bankruptcy filing, all liabilities associated with the Secured Credit Agreement as of January 24, 1991 are stayed.

The amount outstanding at February 23, 1991 under the Asset Sale Bridge Facility is $222,992. The Secured Credit Agreement required the company to sell stock or assets of the remaining business units, other than the core companies of Broyhill, Lane, Florsheim and Converse, sufficient to fund mandatory reductions of the agreement. In accordance with the amendment and waiver dated August 10, 1990, the amounts received from asset sales are being held in a trust for the Secured Credit Agreement. This trust totaled $25,517 at February 23, 1991, and is reported as cash held in trust on the consolidated balance sheet.

The $215,023 amount outstanding under the Term Loan/Mortgage Bridge Facility at February 23, 1991 consists of $198,531 issued under primary commitments and $16,492 issued under secondary commitments. Under the terms of the amendments and waivers, the primary commitments were to be reduced by $75,000 by February 28, 1991, and by $\frac{1}{17}$ of the difference between $75,000 and the $225,000 outstanding on December 31, 1988, on each November 7, February 7, May 7 and August 7 from November 7, 1989 to November 7, 1993 (the "commitment reduction dates"). The secondary commitments were to be reduced on each commitment reduction date by an amount equal to the then aggregate amount of secondary commitments outstanding divided by the number of remaining commitment reduction dates. The Secured Credit Agreement and subsequently issued amendments and waivers required the company to incur debt secured by mortgages on real property in an amount sufficient to fund the $75,000 reduction of the primary commitments by February 28, 1991. The Term Loan/Mortgage Bridge Facility matures on November 7, 1993.

The Borrowing Base Facility matures on November 7, 1993, and the Seasonal Working Capital Facility matures on November 7, 1991. Total borrowings outstanding under the Borrowing Base Facility were $245,135, $239,000 and $175,000 at February 23, 1991, February 24, 1990 and February 25, 1989, respectively. Total borrowings outstanding under the Seasonal Working Capital Facility were $110,000, $65,000 and $20,000 at February 23, 1991, February 24, 1990 and February 25, 1989, respectively. Aggregate loans outstanding under these facilities may not exceed the "Borrowing Base" as defined by the Secured Credit Agreement, as amended. The Borrowing Base is computed by reference to the amount of inventory and accounts receivable of the company and certain subsidiaries, plus a dollar amount established under the agreement.

On February 28, 1991, total availability under the Seasonal Working Capital Facility was reduced from $250,000 to $200,000. No more than $109,544 in trade and stand-by letters of credit may be outstanding at any time with stand-by letters of credit limited to $45,000. In addition, the aggregate principal amount of loans outstanding under the Seasonal Working Capital Facility may not exceed $115,000 at any time.

The borrowings and other extensions of credit under the Secured Credit Agreement are unconditionally guaranteed by each wholly owned active domestic subsidiary of the company, such guarantees being limited to the maximum amount which will not result in a violation of creditors' rights under relevant principles of law. Such borrowings and the guarantees thereof are secured by (i) mortgages or deeds of trust on certain real property owned by the company and its subsidiaries, (ii) patent and trademark security agreements covering patents and trademarks owned by the company and its subsidiaries, (iii) security interests in accounts receivable, inventories, equipment and other personal property of the company and its subsidiaries, and (iv) pledges of the stock of active domestic subsidiaries of the company. Under the Secured Credit Agreement, the banks also had the right to require (to the extent permitted under the then-existing agreements) that real or personal property of the company, or any active domestic subsidiary not at the time subject to a lien or security interest in favor of the banks, be subjected to such a lien and that active domestic subsidiaries, the stock of which is not at the time pledged to the banks, be so pledged.

The outstanding borrowings under the Secured Credit Agreement bear interest at the company's option at either prime rate plus 1½% or adjusted LIBOR plus 2½%. At February 23, 1991, the interest rate for the borrowings under this agreement was 10.5%, and there were no borrowings issued under the LIBOR option. The Secured Credit Agreement debt is considered fully secured and interest continues to be accrued subsequent to the petition date.

The company is required to pay a commitment fee of ½ of 1% per annum on the average daily amount of certain facility commitments of the banks, less the average daily amount of loans outstanding, payable quarterly in arrears until such commitments are terminated. The company also paid an annual agency fee of $400 and certain other fees and expenses in connection with the Secured Credit Agreement.

In addition, a fee of 2½% per annum on the daily average available amount under each letter of credit was assessed for the account of the lenders ratably; a further fee of not more than ¼ of 1% per annum on the daily average available amount under each letter of credit and a customary administrative charge for issuance of the letter of credit were each payable to the relevant issuing bank. Letter of credit fees were payable quarterly in arrears.

Under the Secured Credit Agreement, the company was required to satisfy certain financial tests, including minimum net worth, cash coverage, interest coverage and leverage ratio covenants. The company has not been in compliance with these covenants since November 30, 1989 (except for the leverage ratio test which was not applicable until February 24, 1990) and the group of banks granted temporary amendments and waivers in this regard through February 28, 1991. The majority of the long-term debt agreements of the company contain cross-acceleration clauses which permit the majority of the lenders to accelerate the due dates of substantially all of the company's debt. Although no demand for acceleration of the maturity of long-term debt has occurred, demand can be made due to the defaults described above. Accordingly, the related debt was reclassified as a current liability as of February 24, 1990. As noted previously and in note 1, the company's Chapter 11 bankruptcy filing requires all liabilities as of January 24, 1991 be stayed. Accordingly, long-term debt, including debt under the Secured Credit Agreement, has been reclassified as liabilities subject to compromise.

During the fourth quarter of fiscal 1988, the company issued $200,000 of medium term promissory notes with various interest rates and maturity dates. A January 15, 1988 promissory note in the amount of $125,000, with an interest rate of 8.875%, matures on January 15, 1993. Three promissory notes in the amount of $25,000 each were issued in February 1988 with interest rates of 7.95%, 8.30% and 8.45% and with maturity dates of February 5, 1991, February 25, 1992 and February 16, 1993, respectively. As a result of the Chapter 11 bankruptcy filing, the company did not make the scheduled principal payment of the note due on February 5, 1991. The $125,000 promissory note was issued at a discount of $938. Interest continues to be accrued subsequent to the petition date. The discount and the costs relating to the issuance of the notes are being amortized over the respective lives of the notes as a charge to interest expense.

Included in other assets at February 23, 1991, February 24, 1990 and February 25, 1989 is $6,113, $18,735 and $43,451, respectively, of unamortized deferred debt costs which are being amortized over the original lives of certain debt instruments. Amortization of debt issue costs amounted to $12,622, $24,722 and $11,043 for fiscal 1991, 1990 and 1989, respectively. The majority of these deferred costs relate to the debt incurred in the Fiscal 1989 Recapitalization.

8. Debentures

The debentures were issued as part of the special dividends declared by the Board of Directors in the Fiscal 1989 Recapitalization and consisted of the following, by class of debenture:

	1991	1990	1989
13.75% Senior Subordinated Debentures, net of unamortized original issue discount of $6,677, $7,295 and $7,967, based on an effective interest rate of 14.1%, due December 15, 2000	**$ 397,693**	$ 397,075	$396,403
14.0% Subordinated Discount Debentures, net of unamortized original issue discount of $64,891, $111,063 and $158,061, based on an effective interest rate of 16.1%, due December 15, 2003	**321,407**	275,235	228,237
14.50% Junior Pay-in-Kind Subordinated Debentures, net of unamortized original issue discount of $26,561, $24,356 and $22,604, based on an effective interest rate of 15.9%, due December 15, 2003	**246,407**	212,955	184,017
	965,507	885,265	808,657
Less amounts classified as current	**—**	(885,265)	—
Less liabilities subject to compromise	**(965,507)**	—	—
	$ —	$ —	$808,657

As discussed in note 1 to the consolidated financial statements, the debtor filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. As a result, contractual terms have been suspended with respect to debt subject to compromise and interest accruals have been discontinued on the debentures (considered undersecured). The following paragraphs include discussion of the original contractual terms of the debentures; however, the maturity and terms of the debentures, subsequent to the petition date, will result from the plan of reorganization upon confirmation by the Bankruptcy Court.

The Senior Subordinated Debentures, due on December 15, 2000, pay interest semiannually at the annual rate of 13.75% and require three annual sinking fund payments of 25% of the principal amount commencing on December 15, 1997 to retire 75% of the debentures prior to final maturity. On or after December 15, 1992, the debentures may be redeemed at the company's option at 108.75% of face value, decreasing to 100% in 1997. The debentures are subordinated in right of payment to all senior debt of the company.

The Subordinated Discount Debentures, due on December 15, 2003, require three annual sinking fund payments of 25% of the principal amount commencing on December 15, 2000 to retire 75% of the debentures prior to final maturity. Interest on the debentures will accrue commencing December 15, 1991 at the annual rate of 14.0% and will be payable semiannually with the first interest payment on June 15, 1992. On or after December 15, 1995, the debentures may be redeemed at the company's option at 108.75% of face value, decreasing to 100% in 2000. The debentures are subordinated in right of payment to all senior debt, including the Senior Subordinated Debentures of the company.

The Junior Pay-in-Kind Subordinated Debentures mature on December 15, 2003. Interest is payable semiannually at the annual rate of 14.5% and, at the option of the company, may be paid in cash or additional debentures until December 15, 1993. Interest payments commenced on June 15, 1989 and semiannual interest payments required since the commencement date were paid in additional debentures, except for the June 15, 1990 and December 15, 1990 interest payments which were not made by the company, but were considered as additional debentures for financial reporting purposes. On or after December 15, 1995, the debentures may be redeemed at the company's option at 109.25% of face value, decreasing to 100% in 2000. The debentures are subordinated in right of payment to all senior debt, including the Senior Subordinated Debentures and the Subordinated Discount Debentures of the company.

As a result of the company's anticipated default during fiscal 1990, the debentures and accrued interest on the Junior Pay-in-Kind Subordinated Debentures of $6,786 as of February 24, 1990 were reclassified as current liabilities. The company did not make the cash and additional debenture interest payments on its Senior Subordinated Debentures and Junior Pay-in-Kind Subordinated Debentures due June 15, 1990 and December 15, 1990. These defaults allowed the debenture holders to accelerate the due dates of all the outstanding debentures. Though no demand or acceleration occurred, demand was available due to the defaults described above. As a result of the Chapter 11 filing, the debentures and accrued interest on the Junior Pay-in-Kind Subordinated Debentures of $4,446 as of February 23, 1991 have been reclassified to liabilities subject to compromise. For the period subsequent to the petition date, interest accruals on the debentures were discontinued and $12,591 of interest expense was not recorded.

9. Liabilities Subject to Compromise

Those petition date liabilities that are expected to be settled as part of the plan of reorganization are classified in the consolidated balance sheet as liabilities subject to compromise as of February 23, 1991 and include the following:

	1991
Long-term debt	**$1,007,882**
Debentures	**965,507**
Accounts payable and other liabilities	**164,269**
	$2,137,658

As discussed in note 1, payment of these liabilities, including maturity of debt obligations, is stayed while the debtor continues to operate as a debtor-in-possession.

As part of the Chapter 11 reorganization process, the company is required to notify all known or potential claimants for the purpose of identifying all pre-petition claims against the company. Additional bankruptcy claims and pre-petition liabilities may arise by termination of various contractual obligations and as certain contingent and/or potentially disputed bankruptcy claims are settled for amounts which may differ from those shown on the consolidated balance sheet.

10. Preferred Stock

The company's preferred stock consisted of the following:

Series D—At fiscal years ended 1991, 1990 and 1989, the outstanding Series D Preferred Stock consisted of 11,516, 11,743 and 19,103 shares, respectively, of $7.75 cumulative convertible with stated and involuntary liquidating value of $100.00 per share.

Each share of the Series D Preferred Stock is convertible into 91.0028 shares of the company's common stock. The Series D Preferred Stock may be redeemed, at the company's option, at $102.75 in 1991, decreasing to $100.00 per share in 1994, plus accumulated dividends, subject to Delaware corporation law.

Subsequent to February 25, 1989, the Board of Directors was required under Delaware corporation law to omit the quarterly dividend payments of $1.9375 per share on the Series D Preferred Stock. The dividend arrearage on the 11,516 shares outstanding at February 23, 1991 totaled $201.

Series E—The Series E Preferred Stock pays quarterly dividends at an annual rate of 17.5% and had a $100.00 per share initial aggregate liquidation preference. Dividend requirements commenced on March 15, 1989, payable in cash, or prior to December 15, 1994, in Series E Preferred Stock, and if not paid in cash or stock, the aggregate liquidation preference increases 4.375% quarterly. In fiscal 1991 and 1990, no payments were made in cash or Series E Preferred Stock and, as a result, the aggregate liquidation preference at February 23, 1991 had increased to $467,737.

Each share of Series E Preferred Stock, including the shares represented by depositary receipts, may be redeemed, at the company's option, at 101% of the then aggregate liquidation preference per share, plus accrued dividends, through December 15, 1994 and at 100% thereafter. The shares are exchangeable, at the company's option, on any dividend date after December 15, 1994, into Junior Subordinated Exchange Debentures, which would bear interest at the same rate as the Series E Preferred Stock.

Each share of Series E Preferred Stock, including the shares represented by depositary receipts, carried warrants to purchase 3.5 shares of common stock at $6.25 per share. On March 14, 1989, the warrants separated from the Series E Preferred Stock and warrant certificates evidencing the right to purchase 11,622,457 shares of common stock were issued. The warrants became exercisable on July 1, 1989 and expire on March 15, 1992. No warrants were exercised during the fiscal year ended February 23, 1991. Warrants for three shares of common stock were exercised during the fiscal year ended February 24, 1990.

11. Common Stock

Shares of common stock were reserved for the following purposes at February 23, 1991:

	Number of Shares
Common stock options:	
Granted	**9,187,985**
Available for grant	**434,325**
Common stock warrants	**11,622,454**
Conversion of Series D Preferred Stock	**1,047,988**
	22,292,752

Under the company's Stock Option Plans, certain key employees may be granted incentive options, nonqualified options, stock appreciation rights or combinations thereof. Options and stock appreciation rights granted under the 1980 and 1985 Plans may not be less than 100% of the fair market value of the common stock on the date of grant. All options which have been granted, incentive or nonqualified, were at 100% of fair market value on the date of grant. Incentive options and nonqualified options expire ten years after the date of grant. At February 23, 1991, no appreciation rights have been granted. Options outstanding and the exercise prices thereon and shares available for grant were adjusted in accordance with anti-dilution provisions of the Plans subsequent to the record dates of the Fiscal 1989 Recapitalization dividends.

On May 16, 1990, employees surrendered outstanding options with exercise prices ranging from $0.97 to $3.5387 with issue dates ranging from July 10, 1981 to October 31, 1989 and the company replaced the surrendered options with new options with exercise prices of $0.45 per share. One-third of the options become exercisable May 16, 1991, with the remaining two-thirds becoming exercisable in two equal increments on that date or at such times as sales of the common stock on the New York Stock Exchange exceed $1.50 and $2.00 per share, respectively. The minimum price restrictions are removed and all options become exercisable on January 1, 1995 and remain exercisable until they expire on May 16, 2000.

At February 23, 1991, information regarding options granted but not exercised was as follows:

	Option Shares Outstanding	Dates of Grant	Price Range
1980 Plan	42,600	March 10, 1987	$3.00
1985 Plan	1,795,255	October 31, 1989—July 3, 1990	$0.33—$0.97
1989 Plan	7,350,130	May 16, 1990—July 3, 1990	$0.33—$0.45

Changes in options granted are summarized as follows:

	1991		1990		1989	
	Shares	**Average Price**	Shares	Average Price	Shares	Average Price
Beginning of year	**9,534,144**	**$2.55**	4,168,134	$2.61	850,312	$32.30
Recapitalization dividends	**—**	**—**	—	—	4,276,147	—
Reissued	**8,790,294**	**0.45**	—	—	—	—
Granted	**1,414,500**	**0.33**	7,067,500	2.56	—	—
Exercised	**—**	**—**	(159,040)	1.68	(564,820)	25.31
Cancelled	**(10,550,953)**	**2.33**	(1,542,450)	2.86	(393,505)	5.79
End of year	**9,187,985**	**0.45**	9,534,144	2.55	4,168,134	2.61
Exercisable at end of year	**53,398**		3,234,991		1,723,975	

In July 1988, previously issued Common Share Purchase Rights were redeemed for $875. On July 11, 1988, the company declared a dividend of one Common Share Purchase Right for each outstanding share of common stock, effective July 21, 1988. The rights will not be exercisable or transferable apart from the common stock, until ten days after another person or group of persons acquires 15% or more of the common stock or commences, or announces its intention to commence, a tender or exchange offer for 15% or more of the common stock. Each right entitles its holder to buy one share of common stock at an exercise price of $10.00. In certain circumstances, the rights will entitle their holders to purchase larger amounts of common stock or stock in an acquiring company. In addition to the shares reserved above, an additional 61,022,015 shares have been reserved under this plan.

12. Income Taxes

Income tax expense (benefit) was comprised of the following:

	1991	1990	1989
Current:			
Federal	**$(71,787)**	$ (581)	$ 14,814
State and local	**2,926**	6,661	9,403
Foreign	**1,783**	2,014	2,598
	(67,078)	8,094	26,815
Deferred	**2,970**	(17,846)	(8,077)
	$(64,108)	$ (9,752)	$ 18,738

The following table reconciles the differences between the Federal corporate statutory rate and the company's effective income tax rate:

	1991	1990	1989
Federal corporate statutory rate	**34.0%**	34.0%	34.0%
State and local income taxes, net of Federal tax benefit	**(1.0)**	(6.5)	48.7
Foreign taxes, including foreign currency translation effects	**(2.3)**	(2.1)	23.7
Nondeductible restructuring expenses	**—**	—	37.6
Tax over book gain on asset dispositions	**—**	(9.9)	—
Other	**(0.9)**	(0.2)	3.8
Effective income tax rate	**29.8%**	15.3%	147.8%

Certain items are recognized for income tax purposes in years other than those in which they are reported in the consolidated financial statements. The sources of these differences were as follows:

	1991	1990	1989
Depreciation	$(3,220)	$ 607	$ 1,654
Deferred compensation and pension expense	957	2,542	2,198
Valuation and expense accruals	2,033	(10,746)	(5,492)
Inventory costs capitalized	1,141	590	(6,462)
Interest expense	(1,906)	(10,775)	—
Other	3,965	(64)	25
	$ 2,970	$ (17,846)	$(8,077)

Future income tax benefits and deferred income tax credits at the end of each fiscal year are included in the accompanying consolidated balance sheet, as follows:

	1991	1990	1989
Prepaid expenses and other current assets	$ 21,606	$ 27,243	$ 23,584
Other long-term liabilities	(17,801)	(20,468)	(40,757)
	$ 3,805	$ 6,775	$(17,173)

The Federal income tax returns of the company and its major subsidiaries have been examined through fiscal year ended February 28, 1986.

13. Employee Benefits

The company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for fiscal years 1991, 1990 and 1989 was $3,909, $5,214 and $8,695, respectively.

Company-Sponsored Defined Benefit Plans—The company follows FASB Statement No. 87 "Employers' Accounting for Pensions". Annual cost for defined benefit plans under Statement No. 87 is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the company's practice to fund pension costs to the extent that such costs are tax deductible. Funding decisions made in fiscal 1991 contributed towards the deferred or prepaid pension cost. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts.

The tables below summarize the funded status of the company-sponsored defined benefit plans.

	1991		1990		1989	
	Plans in which		Plans in which		Plans in which	
	Assets Exceed Accumulated Benefits	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:						
Vested benefit obligation	**$211,851**	**$14,109**	$202,158	$12,523	$177,422	$ 2,364
Accumulated benefit obligation	**$214,342**	**$16,120**	$206,727	$13,910	$184,918	$ 3,171
Projected benefit obligation	**$238,817**	**$19,097**	$231,852	$16,099	$211,262	$ 3,508
Plan assets at fair value	**302,680**	**11,274**	282,715	11,536	257,865	1,207
Projected benefit obligation less than (in excess of) plan assets	**63,863**	**(7,823)**	50,863	(4,563)	46,603	(2,301)
Unrecognized net (gain) loss	**(29,558)**	**(1,555)**	(17,124)	(2,023)	(19,047)	25
Unrecognized prior service cost	**1,144**	**705**	822	—	203	—
Unrecognized net (asset) obligation at year end	**(21,806)**	**3,706**	(23,787)	3,009	(23,233)	978
Prepaid (accrued) pension cost	**$ 13,643**	**$ (4,967)**	$ 10,774	$ (3,577)	$ 4,526	$(1,298)

Net periodic pension cost of continuing operations for fiscal years 1991, 1990 and 1989, include the following components:

	1991	1990	1989
Service cost—benefits earned during the period	**$ 4,549**	$ 4,733	$ 4,624
Interest cost on the projected benefit obligation	**19,837**	19,477	14,184
Actual return on plan assets	**(31,685)**	(30,282)	(15,543)
Net amortization and deferral	**7,526**	6,631	437
Net periodic pension cost	**$ 227**	$ 559	$ 3,702

The company recognized a curtailment gain of $1,003 associated with continuing operations in fiscal 1990. The company also recognized curtailment gains of $2,774 and $2,388 in fiscal 1990 and 1989, respectively, associated with discontinued operations.

Employees are covered primarily by noncontributory plans, funded by company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits generally are based upon service, pay, or both, with employees generally becoming vested upon completion of 5 years of service.

The expected long-term rate of return on plan assets was 8%—8.5% in fiscal years 1991, 1990 and 1989. Measurement of the projected benefit obligation for fiscal years 1991 and 1990 was based on an 8.75% discount rate and for fiscal 1989 on a 9.25% discount rate with a 5.5% long-term rate of compensation increase in each year. The discount rate used in the development of the net periodic pension cost for fiscal 1991 was 8.75%. The discount rate used in fiscal years 1990 and 1989 was 9.25%.

Other Retirement Plans and Benefits—In addition to defined benefit plans, the company makes contributions to various defined contribution, union negotiated and foreign plans. The cost of these plans is included in the total cost for all plans reflected above.

The company also sponsors two savings plans and an Employee Stock Ownership Plan (ESOP). The total cost of these plans for fiscal years 1991, 1990 and 1989 was $544, $716 and $903, respectively. At February 23, 1991, the INTERCO INCORPORATED Employee Stock Ownership Plan held 282,521 shares of the company's common stock and $255 face amount of the company's Senior Subordinated Debentures.

The company provides certain health care and life insurance benefits for certain employees who reach retirement age. Retiree health and life insurance benefits are provided through insurance companies. The cost of these benefits is recognized as expense as these claims are paid. Post-retirement health care and life insurance expense for fiscal years 1991, 1990 and 1989 was $573, $397 and $1,306, respectively.

In December 1990, the FASB issued Statement No. 106 "Employers' Accounting for Post-Retirement Benefits Other Than Pensions". This statement requires accrual, during the years the employee renders the necessary service, of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents. Initial adoption of this pronouncement is not required until the company's first quarter of fiscal 1994. Management is of the opinion the adoption of this pronouncement will not have a material impact on the consolidated financial statements.

14. Lease Commitments

Substantially all of the company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2004. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Rental expense under operating leases for fiscal years 1991, 1990 and 1989, was as follows:

	1991	1990	1989
Basic rentals	**$33,710**	$33,701	$33,323
Contingent rentals	**10,931**	21,274	31,849
	44,641	54,975	65,172
Less sublease rentals	**610**	670	1,729
	$44,031	$54,305	$63,443

Included in rental expense above is the cost of services provided by lessors of leased retail departments, estimated to aggregate $1,800, $7,800 and $15,100 in fiscal years 1991, 1990 and 1989, respectively.

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $10,300, at February 23, 1991, aggregate $119,538. Annual payments under operating leases are $26,608, $21,392, $17,781, $13,848 and $10,033 for fiscal years 1992 through 1996, respectively.

The company has also guaranteed leases of the discontinued operations which at February 23, 1991 aggregated approximately $35,910, based on minimum rentals.

As of February 23, 1991, the debtor had not rejected any noncancellable operating leases under the provisions of the Bankruptcy Code.

15. Litigation

In fiscal 1989, certain shareholder actions were filed against the company and its directors in the United States District Court for the Southern District of New York and the Delaware Court of Chancery. These actions allege, among other things, the directors of the company violated the federal securities laws and breached their fiduciary duties to the company's shareholders in connection with Cardinal Acquisition Corp.'s tender offer for the company's stock. The suits sought damages and other remedies. These shareholder actions have now been settled and the courts have dismissed them, retaining jurisdiction for purposes of claims administration. Certain shareholders have opted out of the settlement and their claims have not been extinguished unless they participated in the settlement by filing proof of claim forms.

In fiscal 1991, the trustee, under the company's medium term note indenture dated November 1, 1987, filed suit against the company and the two trustees under the Secured Credit Agreement. This action seeks a declaration of the respective rights of the medium term note holders and the company's lending banks, and seeks to determine whether effective provision has been made to secure the medium term notes equally and ratably as required by the medium term note indenture. The suit also seeks other equitable and injunctive relief, primarily with respect to the sharing of the proceeds of the company's asset sales.

Certain divisions and subsidiaries of the company are or have been contributors to the ILGWU National Retirement Fund (the "ILGWU Fund"), an underfunded multiemployer pension fund. Many of the company's operations which have contributed to the ILGWU Fund have been discontinued. As a result, on April 11, 1991, the company received from the ILGWU Fund an assessment of partial withdrawal liability, in the amount of $22,818. The company intends to contest this assessment vigorously. In the opinion of management, based upon discussions with outside counsel, adequate provision for the payment of any such assessment which may ultimately be required from the company has been made in the consolidated financial statements. Accordingly, management does not believe the amount of such assessment will have a material adverse effect upon the consolidated financial position of the company.

On January 24, 1991, the company filed Chapter 11 bankruptcy petitions in the United States Bankruptcy Court for the Eastern District of Missouri. See note 1 to the consolidated financial statements which discusses the effect of the stay on claims in existence prior to the filing of the bankruptcy petitions.

In the opinion of management, after consultation with the company's legal counsel, the claims against the company when resolved, either individually or in the aggregate, will not have a material adverse effect on the consolidated financial position of the company.

On January 24, 1991, the company filed an action in the United States District Court for the Eastern District of Missouri against Wasserstein, Perella & Co., Inc., its former investment banker and financial advisor. The complaint, seeking $89,500 in compensatory damages, plus prejudgment interest and punitive damages, charges Wasserstein, Perella & Co. with professional malpractice, negligent misrepresentation, breach of fiduciary duty, fraud and breach of contract in connection with its advice and services regarding the company's sale of Ethan Allen, Inc. Wasserstein, Perella & Co. has included in its answer to the complaint certain "unasserted counterclaims" for fees and expenses incurred by it in connection with the action and prior litigation.

On January 24, 1991, the company filed an action in the United States District Court for the Eastern District of Missouri against the Federal Insurance Company alleging that Federal failed to pay the total amount of the settlement and the legal fees, expenses and costs of defending and settling the shareholder class actions filed in fiscal 1989 against the company and its directors. In the suit, the company seeks no less than $15,500 in compensatory damages and prejudgment interest thereon, statutory penalties, punitive damages, attorneys' fees and costs.

The company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the company from all such proceedings will not have a material adverse effect upon the consolidated financial position of the company and its subsidiaries.

16. Business Segment Information

The company's two business segments are Furniture and Home Furnishings and Footwear Manufacturing and Retailing. Information, on an unaudited basis, relating to the operating companies and their products, which constitute each segment, is included on page 1. Summarized financial information by business segment was as follows:

	1991	1990	1989
Net sales to unaffiliated customers:			
Furniture	**$ 786,556**	$ 910,403	$1,096,515
Footwear	**652,690**	745,676	915,447
Total	**$1,439,246**	$1,656,079	$2,011,962
Operating earnings:			
Furniture	**$ 75,340**	$ 101,488	$ 131,731
Footwear	**9,176**	43,648	42,550
	84,516	145,136	174,281
Corporate and restructuring expenses, interest expense, and other income and expense, net	**(299,998)**	(208,716)	(161,601)
Earnings (loss) from continuing operations before income tax expense (benefit)	**$ (215,482)**	$ (63,580)	$ 12,680
Identifiable assets at year end:			
Furniture	**$ 411,683**	$ 426,593	$ 715,636
Footwear	**494,265**	539,553	613,911
	905,948	966,146	1,329,547
Discontinued operations	**21,630**	114,847	346,372
Corporate assets	**217,984**	80,237	117,317
Total	**$1,145,562**	$1,161,230	$1,793,236
Depreciation expense:			
Furniture	**$ 15,359**	$ 20,105	$ 24,964
Footwear	**11,372**	13,346	13,694
Capital expenditures:			
Furniture	**$ 14,177**	$ 22,049	$ 38,635
Footwear	**5,264**	7,611	14,020

As discussed in note 4, the company disposed of its Ethan Allen Inc. subsidiary on June 29, 1989 and a substantial part of Senack Shoes, Inc. on September 18, 1989. Ethan Allen's operating results were included in the furniture segment and Senack's in the footwear segment through the dates of disposal.

Operating earnings of each business segment include its sales less all operating expenses. Substantially all of the company's sales are made to unaffiliated customers. The company has a diversified customer base with no one customer accounting for 10% or more of consolidated sales and no particular concentration of credit risk in one economic sector. Foreign operations are not material.

Identifiable assets are those assets used by each segment in its operations. Corporate assets consisted primarily of cash, short-term investments and unamortized deferred debt costs.

17. Quarterly Financial Information (Unaudited)

Following is a summary of unaudited quarterly information for each of the years in the three-year period ended February 23, 1991:

	First	Second	Third	Fourth
Net Sales:				
1991	$357,899	$369,094	$367,222	$345,031
1990	468,654	430,198	376,923	380,304
1989	490,062	491,335	547,449	483,116
Gross Profit:				
1991	$113,800	$117,119	$118,930	$ 97,188
1990	162,175	145,382	118,507	127,443
1989	173,739	164,302	181,051	154,177
Net Earnings (Loss) From Continuing Operations:				
1991	$ (34,115)	$ (30,468)	$ (31,024)	$ (55,767)
1990	(41,451)	41,451	(32,997)	(20,831)
1989	23,609	18,836	(4,870)	(43,633)
Net Earnings (Loss) From Discontinued Operations:				
1991	$ (7,168)	$ (4,842)	$ (2,458)	$ (10,494)
1990	9,851	77,210	4,475	(5,454)
1989	6,933	16,192	15,082	36,225
Net Earnings (Loss):				
1991	$ (41,283)	$ (35,310)	$ (33,482)	$ (66,261)
1990	(31,600)	118,661	(28,522)	(26,285)
1989	30,542	35,028	10,212	(7,408)
Net Earnings (Loss) Per Common Share From Continuing Operations:				
1991	$ (1.50)	$ (1.40)	$ (1.43)	$ (2.05)
1990	(1.62)	0.52	(1.42)	(1.08)
1989	0.62	0.50	(0.13)	(1.48)
Net Earnings (Loss) Per Common Share:				
1991	$ (1.68)	$ (1.53)	$ (1.49)	$ (2.33)
1990	(1.36)	2.43	(1.30)	(1.23)
1989	0.80	0.93	0.28	(0.51)
Common Dividends Paid Per Share:				
1991	$ 0	$ 0	$ 0	$ 0
1990	0	0	0	0
1989	0.430	0.455	38.600	27.450
Common Stock Price Range (Closing High-Low):				
1991	$ 11/16-9/32	$ 1/2-1/4	$ 9/32-1/8	$ 15/64-1/16
1990	3 5/8-1 7/8	3 1/8-1 1/8	1 5/8-9/16	13/16-1/4
1989	46-40	73-41	73-29	32-2 5/8

The closing market price of INTERCO's Common and Series E Preferred Stock at fiscal year end 1991 was $0.19 and $0.25 per share, respectively.

During the fourth quarter of fiscal 1991, gross profit was 28.2% as compared to 33.5% in fiscal 1990 and 31.9% in fiscal 1989. Gross profit in fiscal 1991 was adversely impacted by the recessionary economic environment in both segments of the company. In fiscal 1991, the Furniture and Home Furnishings segment gross profit was consistent with last year, while the Footwear Manufacturing and Retailing segment gross profit declined primarily due to nonrecurring charges associated with working capital reduction programs. Additionally, as a result of filing petitions under Chapter 11 of the Bankruptcy Code, the company wrote off certain restructuring expenses and deferred charges incurred in connection with the Fiscal 1989 Recapitalization.

Independent Auditors' Report

The Board of Directors and Shareholders
INTERCO INCORPORATED

We have audited the accompanying consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 23, 1991, February 24, 1990 and February 25, 1989 and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for each of the years in the three-year period ended February 23, 1991. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTERCO INCORPORATED and subsidiaries at February 23, 1991, February 24, 1990 and February 25, 1989, and the results of their operations and their cash flows for each of the years in the three-year period ended February 23, 1991 in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the company will continue as a going concern. As discussed in note 1 to the consolidated financial statements, INTERCO INCORPORATED and its domestic subsidiaries filed voluntary petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court on January 24, 1991. This event and circumstances relating to this event, including the company's highly leveraged capital structure, raise substantial doubt about its ability to continue as a going concern. Although the company and its domestic subsidiaries are currently operating their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court, the continuation of their business as going concerns is contingent upon, among other things, the ability to (1) formulate a Plan of Reorganization which will gain approval of the creditors and shareholders and confirmation by the Bankruptcy Court, (2) maintain compliance with all debt covenants under the debtor-in-possession financing facility, and (3) achieve satisfactory levels of future operating profit. The consolidated financial statements as of and for the year ended February 23, 1991 neither include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might be necessary should the company or its subsidiaries be unable to continue as going concerns, nor do those consolidated financial statements include any adjustments relating to recoverability and classification of reported asset amounts or adjustments relating to the establishment, settlement and classification of liabilities that may be required in connection with restructuring INTERCO INCORPORATED and its domestic subsidiaries as they reorganize under Chapter 11 of the United States Bankruptcy Code.

KPMG Peat Marwick

St. Louis, Missouri
April 8, 1991

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)

Years Ended	1991	1990	1989	1988	1987
For the Year					
Summary of operations:					
Net sales	**$ 1,439,246**	$ 1,656,079	$2,011,962	$1,995,974	$1,630,918
Cost of sales	**992,209**	1,102,572	1,338,693	1,292,419	1,050,663
Interest expense	**259,495**	303,123	141,735	29,188	23,061
Earnings (loss) from continuing operations before income tax expense (benefit)	**(215,482)**	(63,580)	12,680	195,066	155,252
Income tax expense (benefit)	**(64,108)**	(9,752)	18,738	83,794	71,505
Net earnings (loss) from continuing operations	**(151,374)**	(53,828)	(6,058)	111,272	83,747
Discontinued operations	**(24,962)**	86,082	74,432	31,569	42,290
Net earnings (loss) applicable to common stock	**(272,097)**	(51,584)	56,590	142,841	126,037
Per share of common stock:					
Net earnings (loss) from continuing operations	**$(6.38)**	$(3.57)	$ (0.49)	$2.68	$1.93
Net earnings (loss) applicable to common stock	**$(7.03)**	$(1.34)	$ 1.56	$3.45	$2.91
Cash dividends	**$ —**	$ —	$39.49	$1.60	$1.57
Securities dividends	**$ —**	$ —	$27.45	$ —	$ —
Average common and common equivalent shares outstanding (in thousands)	**38,720**	38,585	36,348	41,456	43,312
Cash dividends paid:					
On common stock	**$ —**	$ —	$1,454,218	$ 59,598	$ 53,273
On preferred stock	**$ —**	$ —	$ 1,944	$ 4,621	$ 4,972
At Year End					
Working capital	**$ 719,738**(1)	$(1,242,776)(2)	$ 469,543	$1,006,905	$ 953,047
Property, plant and equipment, net	**172,112**	186,919	327,070	317,238	312,782
Capital expenditures	**19,612**	29,663	53,829	45,925	34,435
Total assets	**1,145,562**	1,161,230	1,793,236	1,851,349	1,766,429
Long-term debt	—(1)	3,176(2)	1,178,180	266,191	143,358
Debentures	—(1)	—(2)	808,657	—	—
Liabilities subject to compromise	**2,137,658**(1)	—	—	—	—
Shareholders' equity (deficit)	**$(1,135,211)**	$ (958,958)	$ (995,187)	$1,263,676	$1,340,716

(1)As discussed in note 9 to the consolidated financial statements, $1,007,882 of long-term debt and $965,507 of debentures were reclassified as liabilities subject to compromise as of February 23, 1991.

(2)As discussed in notes 7 and 8 to the consolidated financial statements, $600,536 of long-term debt and $885,265 of debentures were reclassified as current liabilities as of February 24, 1990.

Board of Directors and Corporate Officers

BOARD OF DIRECTORS

Ronald L. Aylward 1, 5
Vice-Chairman of the Board of the Company

William E. Cornelius 2*, 3, 4
Chairman of the Board and Chief Executive Officer of Union Electric Company

Donald E. Lasater 1, 2, 3*, 4, 5
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman 2, 3, 4*
Chairman of the Board and Chief Executive Officer of Laclede Gas Company

Richard B. Loynd 1*, 5
Chairman of the Board, President and Chief Executive Officer of the Company

R. Stuart Moore 4, 5
Chairman of the Board of The Lane Company, Incorporated

Duane A. Patterson
Secretary of the Company

Robert H. Quenon 4, 5*
Chairman of the Board of Peabody Holding Co., Inc.

Harvey Saligman 1, 2
Retired Chairman of the Board of the Company

CORPORATE OFFICERS

Richard B. Loynd
Chairman of the Board, President and Chief Executive Officer

Ronald L. Aylward
Vice-Chairman of the Board

Eugene F. Smith
Executive Vice-President

R. Stuart Moore
Vice-President

Ronald J. Mueller
Vice-President

David P. Howard
Vice-President and Controller

Duane A. Patterson
Secretary

Robert T. Hensley, Jr.
Treasurer

Stanley F. Huck
Assistant Vice-President, Finance

Keith E. Mattern
General Counsel and Assistant Secretary

James K. Pendleton
Assistant Secretary

William R. Withrow
Assistant Treasurer

Committees of the Board

1 Executive Committee
2 Audit Committee
3 Executive Compensation and Stock Option Committee
4 Finance Committee
5 Nominating Committee
(*indicates Committee Chairman)

Transfer Agents, Registrars and Dividend Disbursing Agent Common and Preferred Stock

Transfer Agents and Registrars
Ameritrust Company, N.A.
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

First Chicago Trust Company of New York
30 West Broadway
New York, New York 10001-2192
(212) 587-6434

Dividend Disbursing Agent
Ameritrust Company, N.A.
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

Exchange Listings
Common Shares are listed on the New York Stock Exchange and the Midwest Stock Exchange (Trading symbol: ISS)

Trustees, Registrars and Paying Agents Notes and Debentures

Trustee, Registrar and Paying Agent for 8.875% Promissory Notes due 1993
The Boatmen's National Bank of St. Louis
Corporate Trust Department
510 Locust Street
St. Louis, Missouri 63101
(314) 436-9581

Trustee, Registrar and Paying Agent for
8.45% Promissory Notes due 1993
8.30% Promissory Notes due 1992
7.95% Promissory Notes due 1991

Trustee:
The Boatmen's National Bank of St. Louis
Corporate Trust Department
510 Locust Street
St. Louis, Missouri 63101
(314) 436-9581

Registrar and Paying Agent:
Bankers Trust Company
Corporate Trust and Agency Group
4 Albany Street
New York, New York 10006
(212) 250-6000 (Shareholder Relations)

Trustee, Registrar and Paying Agent for 13.75% Senior Subordinated Debentures due 2000
First Trust National Association
180 East Fifth Street
St. Paul, Minnesota 55101
(612) 370-4715

Trustee, Registrar and Paying Agent for 14.00% Subordinated Discount Debentures due 2003
Norwest Bank Minnesota N.A.
Sixth Street & Marquette Avenue
Minneapolis, Minnesota 55479
(612) 667-9528

Trustee, Registrar and Paying Agent for 14.50% Junior Pay-in-Kind Subordinated Debentures due 2003
Trustee:
Connecticut National Bank
777 Main Street
Hartford, Connecticut 06115
(203) 722-9082

Registrar and Paying Agent:
Ameritrust Company, N.A.
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

Corporate Offices
101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting
The date and place of the Annual Meeting of Shareholders has not been determined. Notice of the meeting and a proxy statement will be sent to shareholders in a separate mailing.

Form 10-K Annual Report
A copy of the current Form 10-K filed with the Securities and Exchange Commission can be obtained by writing to the Treasurer of INTERCO at the Corporate Offices.

Independent Auditors
KPMG Peat Marwick
1010 Market Street
St. Louis, Missouri 63101
(314) 444-1400

Principal Companies of INTERCO

Furniture and Home Furnishings Group
Broyhill Furniture Industries, Inc.
Lenoir, North Carolina

The Lane Company, Incorporated
Altavista, Virginia

Footwear Manufacturing and Retailing Group
The Florsheim Shoe Company
Chicago, Illinois

Converse Inc.
North Reading, Massachusetts

INTERCO INCORPORATED

St. Louis, Missouri